

CREDIT OPINION

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Port Chester (Village of) NY

Update to credit analysis

Summary

The Village of Port Chester, NY's credit profile benefits from its favorable location within commuting distance to the city of New York (Aa2, negative). The credit profile incorporates the village's modest, but growing fund balance and operations which generated a small but positive 1.1% margin in 2020 and a balanced fiscal 2021 budget. The rating also incorporates, below average resident wealth and incomes for the region, elevated fixed costs and elevated leverage. It will be critical over the coming years for the village to continue to grow its fund balance and cash levels to support its operational flexibility. Additionally, a material increase in fixed costs or long term liabilities would be viewed as a credit challenge.

The absence of distinction between the GOLT rating and the issuer rating reflects the village board's ability to override the property tax cap and the village's pledge of its faith and credit to pay debt service.

Credit strengths

- » Proximity to employment centers
- » Expanding tax base and property values
- » Growing fund balance and cash position

Credit challenges

- » Elevated leverage and fixed costs
- » Modest wealth and income levels compared to region

Rating outlook

Moody's does not generally assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » A trend of operating surpluses, leading to growth in liquidity and reserves
- » Material tax base expansion
- » Reduced leverage and fixed costs

Factors that could lead to a downgrade

- » Reduced fund balance or cash levels
- » Increased fixed costs or leverage
- » Decline of tax base

Key indicators

Exhibit 1

Port Chester (Village of) NY

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$2,377,321	\$2,575,610	\$2,657,484	\$2,767,554	\$2,935,810
Population	29,417	29,623	29,418	29,342	29,342
Full Value Per Capita	\$80,815	\$86,946	\$90,335	\$94,321	\$100,055
Median Family Income (% of US Median)	91.3%	89.2%	96.0%	100.8%	100.8%
Finances					
Operating Revenue (\$000)	\$37,781	\$38,455	\$40,884	\$43,447	\$45,047
Fund Balance (\$000)	\$7,824	\$7,824	\$5,482	\$5,979	\$6,905
Cash Balance (\$000)	\$7,673	\$7,403	\$5,530	\$5,926	\$6,814
Fund Balance as a % of Revenues	20.7%	20.3%	13.4%	13.8%	15.3%
Cash Balance as a % of Revenues	20.3%	19.3%	13.5%	13.6%	15.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$38,995	\$43,209	\$48,609	\$55,511	\$51,275
3-Year Average of Moody's ANPL (\$000)	\$49,110	\$53,784	\$56,847	\$60,871	\$71,329
Net Direct Debt / Full Value (%)	1.6%	1.7%	1.8%	2.0%	1.7%
Net Direct Debt / Operating Revenues (x)	1.0x	1.1x	1.2x	1.3x	1.1x
Moody's - ANPL (3-yr average) to Full Value (%)	2.1%	2.1%	2.1%	2.2%	2.4%
Moody's - ANPL (3-yr average) to Revenues (x)	1.3x	1.4x	1.4x	1.4x	1.6x

Fiscal year May 31

Sources: US Census Bureau, Port Chester (Village of) NY's financial statements and Moody's Investors Service

Profile

Port Chester, a 2.4 square mile village with approximately 29,342 residents in the Town of Rye (Aa1), is in the southwest portion of Westchester County (Aa1), approximately 30 miles northeast of New York City.

Detailed credit considerations

Economy and tax base: Affordable with proximity to major employment centers and modestly sized tax base

The Village's \$2.9 billion tax base will continue to expand in line with the recent trend of modest growth and its favorable proximity to New York City. Overall, the village tax base has grown at an average annual growth rate of 4.5% over the past five years. Its tax base is diverse with approximately 66% of the village residential and the remainder commercial and industrial. The village's location on the recently renovated and updated Bryam River waterfront should continue to expand economic development opportunities, as should a recently adopted form based zoning code.

Wealth and income levels are modest for the region. Median family income is equal to 92% and 101% of the state and national levels respectively. Full value per capita \$100,055 is below the Westchester County's \$186,175. The home values are 142% of the state median below the county at 172%. However unemployment is at 4.6%, lower than the county at 5.8% and the state at 8.1%. Relative

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to other communities on Long Island Sound in proximity of New York City, Port Chester is affordable with employment opportunities which should promote further opportunities for new growth and organic expansion of its tax base.

The Town of Rye (Aa1) assesses and collects taxes on behalf of the village, and defends tax certiorari petitions filed by village taxpayers. Because of timing and the administrative delays from the pandemic tax certiorari's are expected to increase significantly for fiscal 2021 and could be as large as \$600,000 of which approximately \$200,000 is from the prior year. A portion of this has been reserved and expected to come from fund balance, the village expects to issue debt to pay the refunds. The increased tax certiorari's over the last several years are attributed to incorrect tax assessments conducted by the Town of Rye. These are expected to be resolved over the next year and the Town of Rye expects tax certiorari's will decline significantly for the 2021-22 fiscal year and is working to address these issues in a fiscally sustainable manner.

Financial operations and reserves: Adequate reserves which continue to grow and variable operating results which turned positive in fiscal 2020

Port Chester's reserves have grown over the past several years and will remain critical to operating stability and while fiscal 2020 had a small surplus the village had operating deficits for in years prior. At the end of fiscal 2020, the village's available operating fund balance amounted to a three-year high of \$6.9 million or an adequate 15.3% of operating revenue. The Village's revenue are primarily derived from property taxes (63%) with state aid accounting for only 1.7% of operating revenue, while sales tax accounts for 14.8%, which increased over last years levels despite the pandemic. The village's reserve position declined from a high of \$7.8 million in 2016 as a result of draws on the fund balance because of several over budgeted line items including benefits and service contracts and weaker than expected revenue.

Fiscal 2020 operations trended favorably to budget and added a modest \$497,000 to fund balance. The village reported savings in various areas because of a reduction in services related to the pandemic. The fiscal 2020 budget was balanced with an increased tax levy which required an override reflecting the willingness of the village to address its budget challenges. Fiscal 2021 budgeting plans are in line with fiscal 2020 with no expected material changes in operations and no override. The village increased its property tax levy 3.4% from fiscal 2020 with total fiscal 2021 budgeted revenue of \$44 million in line with the prior year. Operating results in fiscal 2021 will reflect management's ability and the village's willingness to continue to address a challenging operating environment.

Liquidity

The village liquidity is solid with an ending fiscal 2021 cash position of \$5.6 million or 15% of revenue. The fiscal 2021 cash position is likely to remain at similar levels given its large tax certiorari's and expected draw of \$200,000.

Debt and other long term liabilities: Elevated leverage and high fixed costs

Overall, the debt and pension liabilities of Port Chester are elevated relative to the Aa3 rating. The village's net direct debt to full value increased modestly from 2015 to 2019. Likewise, fixed costs to service both debt, pension, and OPEB liabilities is elevated at 26% of fiscal 2020 operating revenue.

The village's unfunded pension and OPEB liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The village participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis. The table below summarizes the pension and OPEB contributions and unfunded liabilities.

Exhibit 2

Elevated leverage and fixed costs

2020	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	45,047	n/a	n/a
Reported Unfunded Pension Liability	19,778	44%	6.80%
Moody's Adjusted Net Pension Liability	88,815	197%	3.12%
Reported Net OPEB Liability	114,183	253%	2.63%
Moody's Adjusted Net OPEB Liability	111,724	248%	2.78%
Net Direct Debt	51,275	114%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	251,814	559%	
Pension Contribution	2,999	6.66%	n/a
OPEB Contribution	2,497	5.54%	n/a
Debt Service	6,163	13.68%	n/a
Total Fixed Costs	11,659	25.88%	n/a
Tread Water Gap	(198)	-0.44%	n/a
Moody's Adjusted Fixed Costs	11,461	25.44%	n/a

A negative pension tread water gap reflects a pension contribution larger than the amount required to keep the unfunded liability from increasing if all assumptions are realized

Source: Issuer financial statements and Moody's Investors Service

Legal security

All of the village's bonds are secured by the village's general obligation pledge as limited by New York State's legislated cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Debt structure

All of the villages debt is fixed rate with 68.6% of principal maturing within 10 years.

Debt-related derivatives

The village is not a party in and debt derivatives

Pensions and OPEB

Favorably, the villages pension contributions exceeded tread water by \$198,000, the amount required to prevent the unfunded liability from increasing, if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the village participates experience returns on assets that fall short of their assumptions, the village required pension contribution will increase. Because it is not pre-funding OPEB benefits as they accrue, which is not permitted under New York State law though changing that is under discussion in the legislature, the village OPEB costs will likely escalate as the number of retirees it covers grows and retirees age.

ESG considerations**Environmental**

The village does not have significant environmental exposure in the near-term. According to data from Moody's affiliate Four Twenty Seven, which provides environmental exposure on the county level, the village's has high exposure to hurricanes and storm surge events. The villages is located on the Byram River which empties into long island sound at the village and exposes it directly to the sound. The village addresses capital projects annually and would benefit from state and federal assistance in the event of storm damage.

Social

Social issues are unlikely to pose a material credit risk over the near-term. We will continue to monitor a variety of social factors including demographics, wealth levels, population trends and employment levels, as these remain important key credit metrics. The village has a modest poverty rate of 11% compared the national average of 13%.

Governance

The village has a relatively new management team which they continue to build. However, a number of senior management have significant experience in the region and with the village. Fiscal 2020 positive operating results reflects their managerial abilities. As the

governing board and senior management move ahead continued ability to build fund balance and generate operating surpluses will be critical to supporting the rating.

New York cities have an institutional framework score ¹ of "Aa," which is strong. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI. However, this cap can be overridden at the local level, without voter approval and many local governments have done so when necessary. Unpredictable revenue fluctuations tend to be low, reflected in expense growth being under 5% on average across the whole sector. Fixed and mandated costs are generally below 25% of expenditures. New York State has the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be low, however, reflective in expense growth being under 5% on average across the whole sector.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Port Chester (Village of) NY

Village of Port Chester

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$2,935,810	Aa
Full Value Per Capita	\$100,055	Aa
Median Family Income (% of US Median)	100.8%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	15.3%	Aa
4-Year Dollar Change in Fund Balance as % of Revenues	-2.0%	Baa
Cash Balance as a % of Revenues	15.1%	Aa
4-Year Dollar Change in Cash Balance as % of Revenues	-1.9%	Baa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	1.3x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.4%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.6x	A
Notching Adjustments:^[2]		
Other Scorecard Adjustment Related to Debt and Pensions:		Down
Scorecard-Indicated Outcome		A1
Assigned Rating		Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Issuer's financial statements and Moody's Investors Service

Endnotes

- 1 The institutional framework score assesses a municipality's legal ability to match revenue with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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